

Sunway Berhad

Shopping Time!

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Last Friday, SUNWAY announced a land bank replenishment exercise, through a JV structure that injects fresh GDV of RM2.0b to its Klang Valley development and raising total GDV to RM13.1b. We are neutral on the land deal as impact to its RNAV is minimal. No changes to our FY16-17E earnings, MARKET PERFORM call and Sum-of-Parts driven TP of RM3.23.

News. Last Friday, SUNWAY announced that they have entered into a joint-venture agreement with Low Peng Kiat (LPK), CRSC Property SdnBhd (CRSC) and Austral Meridian Property SdnBhd (AMP) which after subscription of shares by SUNWAY, the shareholdings in AMP would be as follows:- SUNWAY (50%+1share) with a put option from sellers where Sunway may own up to 70% in 8 years' time, LPK (40%), and CRSC (10%). Subsequently, AMP will undertake the development (GDV RM2.0b) of the parcel of land measuring 8.45acres along Jalan Peel right opposite Sunway Velocity.

First landbank in 2017. We were not entirely surprised with the land deal as management has always been on the outlook for new landbanks especially in the Klang Valley to diversify from its geographical risk in the Southern region. Based on management's explanation, should they acquire up to 70% in AMP, SUNWAY is required to fork out RM281.2m in total, which works out to be RM1,091psf while management's cost psf is lower at RM886psf (refer overleaf for more details). Based on our derived acquisition cost of RM1,091psf, it represents a premium of 24% over Ibraco's land deal in Jalan Yew back in March2015, which was transacted at RM877psf, and a land cost to GDV ratio of 20%, which is considerably on the steep side. Impact to net gearing to be minimal which is expected to increase to 0.43x from its 0.41x in 3Q16.

Maintain FY16-17 earnings. We make no changes to our FY16-17E earnings estimates of RM485.0-490.0m, as the potential contribution from the project would only commence earliest by FY18 onwards.

Outlook. Overall, we are neutral with the land deal despite being at a premium, given that landbank in such prime location is difficult to come by while the project is a natural extension of its TOD-driven Velocity. This particular development is expected to be launched in 1H18 and development to take place over the next 10years. That said, we are still confident with SUNWAY's ability in delivering sturdy performance for the year premised on its strong unbilled sales of RM1.8b with 2-year visibility, a robust outstanding order book of RM4.8b that provides 2-3 years' visibility and other divisions that has been generating decent growth over the years.

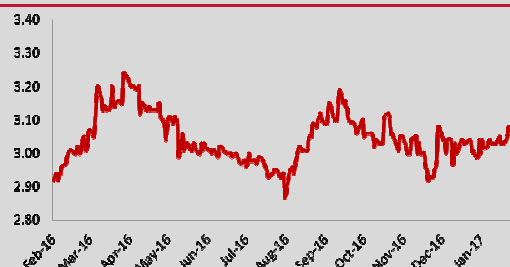
MARKET PERFORM. No changes to our MARKET PERFORM recommendation and SoP-driven Target Price of RM3.23 even after inputting the land deal into our property RNAV, which raised 1.0sen to our TP, as it was offset by a lower valuation in SUNREIT, which we have just updated. We are still maintaining our cautious view on the property market as we have yet to see much improvement in the market, especially bank loan approvals.

Downside risks to our call include: Weaker-than-expected property sales and construction order book replenishment, Higher-than-expected sales and administrative costs, negative real estate policies, and tighter lending environment.

MARKET PERFORM ↔

Price: RM3.14
Target Price: RM3.23 ↔

Share Price Performance



KLCI	1,698.94
YTD KLCI chg	3.5%
YTD stock price chg	3.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	6,357.7
Issued shares	2,024.7
52-week range (H)	3.24
52-week range (L)	2.87
3-mth avg daily vol:	951,016
Free Float	33%
Beta	0.5

Major Shareholders

Sungei Way Corporation S/B	56.5%
Employees Provident Fund Board	6.1%
Fook Ling Cheah	4.6%

Summary Earnings Table

FYE Dec (RM m)	2015A	2016E	2017E
Turnover	4,451	5,042	5,531
EBIT	686	646	690
PBT	929	803	740
Net Profit (NP)	732	499	490
Core NP	594	485	490
Consensus (NP)	n.a.	517.5	543.6
Earnings Revision	n.a.	0%	0%
EPS (sen)	42.5	28.9	28.4
Core EPS (sen)	34.5	28.1	28.4
EPS growth (%)	-51%	-32%	-2%
NDPS (sen)	38.5	9.8	9.7
NTA/Share (RM)	2.91	3.26	3.61
Core PER (x)	7.4	10.8	11.1
Price/NTA (x)	1.1	1.0	0.9
Net Gearing (x)	0.5	0.4	0.5
Dividend Yield (%)	12.3%	3.1%	3.1%

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Payment Structure

Year	0	1	2	3	4	5	6	7	8	Total
Equity (RM'm)	0.5	0	0	0	0	0	0	0	0	0.5
Shareholder advance*	98.0	0	0	0	0	0	0	0	0	98
10% Put Option at Year 4 & 8 each (assume exercised)	0	0	0	0	91.4	0	0	0	91.4	182.7
Total										281.2

*Based on 70% of RM140.0 mil shareholders advance.

Source: Company

Kenanga and SUNWAY management's last cost calculations**Kenanga land cost calculation**

Estimated total GDV (RM'b)	2,000.0
Estimated effective GDV (70%)	1,400.0
Land size (sf)	368,082.0
Effective land size (sf) on 70% stake	257,657.4
Land cost based on 70% (RM'm)	281.2
Effective cost psf	1,091.4
Effective land cost to GDV ratio (70%)	20%

Sunway management land cost calculation

Estimated total GDV (RM'b)	2,000.0
Estimated effective GDV (70%)	1,400.0
Land size (sf)	368,082.0
Effective land size (sf) on 70% stake	257,657.4
NPV of land cost based on 70% (RM'm)	228.2
Effective cost psf	885.6
Effective land cost to GDV ratio (70%)	16%

Source: Company, Kenanga Research

Sunway management land cost calculation methodology

Sunway management land cost calculation methodology	Remarks
Equity (RM'm)	0.5
Shareholder advance*	98.0
NPV of 1st Put Option at Year 4 @ discount rate of 6%	72.4
NPV of 2nd Put Option at Year 8 @ discount rate of 6%	57.3
Total	228.2
	Value of Put Option 1 (RM91.4m) divided by 1.06 ⁴
	Value of Put Option 2 (RM91.4m) divided by 1.06 ⁸

Source: Company

Sum-of-Parts

	Stake	Value @ Stake	PER	Discount	Value	Assumptions
		RM'm	(x)	(%)	RM'm	
Property Development & Investment	100%	6,623	n.a	61%	2,616	(i) Property Dev: DCF of Future Profits @ 11% WACC, 18% net margin (ii) Property Inv: Zero surplus on Book Value
Sunway Reit	35%	1,712	n.a		1,712	SUNREIT TP RM1.68
Construction	56%	1,303	14		1,303	14x FY17E PER- higher compared to mid cap construction Fwd PERs of 9x-13x.
Quarry & Buildings Mat	100%	37	8		37	8x FY17E PER
Trading & manufacturing	100%	450	8		450	8x FY17E PER
Group Shareholders Funds					0	
Total SOP		10,125			6,118	
Adjustment for Dilution					879	
TP (RM)					3.23	
Diluted no. of shares ('m)					2,168	

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E	FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Revenue	4734	4842	4451	5042	5531	Growth (%)					
EBITDA	915	729	808	777	831	Revenue	-	2.3	-8.1	13.3	9.7
Depreciation	-109	-114	-122	-131	-141	EBITDA	-	-20.3	10.8	-3.9	6.9
EBIT	806	615	686	646	690	EBIT	-	-23.7	11.5	-5.9	6.9
Interest Expense	-138	-79	-124	-96	-106	Pre-tax Income	-	-48.8	-4.1	-13.6	-7.8
Investing	36	48	98	53	47	Net Income	-	-50.4	-1.5	-31.9	-1.8
Associate/JCE	172	233	270	200	109	Core Net Profit	-	22.7	0.3	-18.4	1.0
Exceptionals/FV	1018	152	138	0	0	Profitability (%)					
PBT	1894	969	929	803	740	EBITDA Margin	19.3	15.1	18.2	15.4	15.0
Taxation	-121	-148	-130	-185	-165	EBIT Margin	17.0	12.7	15.4	12.8	12.5
Minority Interest	-273	-78	-67	-133	-85	PBT Margin	40.0	20.0	20.9	15.9	13.4
Net Profit	1500	744	732	499	490	Net Margin	31.7	15.4	16.5	9.9	8.9
Core Net Profit	483	592	594	485	490	Core Net Margin	10.2	12.2	13.3	9.6	8.9
						Effective Tax Rate	-22.6	-22.3	-14.0	-23.0	-22.3
						ROE	33.6	13.2	11.7	7.4	7.1
						ROA	14.9	6.2	5.1	3.1	3.0
						DuPont Analysis					
						Net margin (%)	31.7	15.4	16.5	9.9	8.9
						Assets T/O (x)	0.5	0.4	0.3	0.3	0.3
						Leverage fac. (x)	2.3	2.1	2.3	2.4	2.3
						ROE (%)	33.6	13.2	11.7	7.4	7.1
						Leverage					
						Debt/Asset (x)	0.25	0.29	0.37	0.30	0.32
						Debt/Equity (x)	0.52	0.64	0.90	0.69	0.77
						Net Debt/(Cash)	1.3	1.8	3.3	2.4	3.5
						Net Debt/Eq. (x)	0.24	0.30	0.50	0.35	0.51
						Valuations					
						EPS (sen)	87.1	43.2	42.5	28.9	28.4
						Core EPS	28.0	34.4	34.5	28.1	28.4
						NDPS (sen)	10.0	13.8	38.5	9.8	9.7
						BV/share (RM)	3.10	3.45	3.80	4.02	4.02
						Core PER (x)	3.6	7.3	7.4	10.8	11.1
						Net Div. Yield (%)	3.2%	4.5%	12.3%	3.1%	3.1%
						PBV (x)	1.0	0.9	0.8	0.8	0.8
						EV/EBITDA (x)	7.3	9.9	10.7	10.1	10.7

Balance Sheet

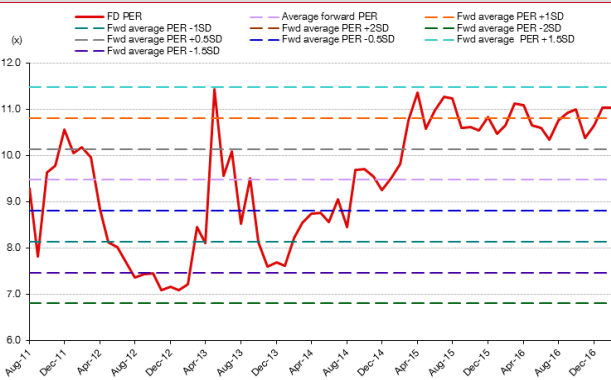
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Fixed Assets	3540	3766	5248	5614	6583
Intangibles	320	319	320	320	320
Other FA	2369	2652	3362	3362	3362
Inventories	623	598	693	690	767
Receivables	2679	3492	3633	3371	3698
Other CA	63	111	111	111	111
Cash	1527	1978	2627	2342	1803
Total Assets	11120	12917	15994	15810	16643
Payables	2154	2172	2446	2864	3156
ST Borrowings	1805	2283	3304	2283	2283
Other ST Liability	24	21	43	43	42
LT Borrowings	991	1502	2585	2498	3036
Other LT Liability	486	605	416	417	421
Minority Int.	317	389	651	784	784
Net Assets	5343	5945	6550	6921	6921
Share Capital	1723	1731	1800	1800	1800
Reserves	3620	4215	4750	5122	5122
Shareholder Eqty	5343	5945	6550	6921	6921

Cashflow Statement

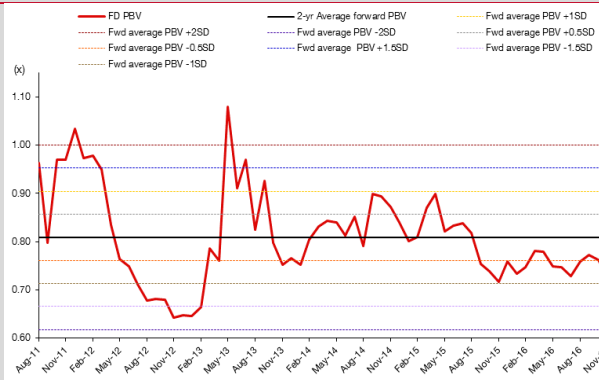
FY Dec (RM m)	2013A	2014A	2015A	2016E	2017E
Operating CF	755	271	195	1,452	301
Investing CF	-1,131	-20	-2,948	-59	-1,152
Financing CF	744	761	2,935	-1,321	312
Net Chg in Cash	368	1,013	182	72	-539
Free Cash Flow	532	545	-629	1,938	411

Source: Kenanga Research

Fwd PER Band



Fwd PBV Band



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (10/2/17)	Mkt Cap	PER (x)			Est. NDiv. Yld.	Hist. ROE	P/BV	Net Profit (RMm)			FY16/17 NP Growth	FY17/18 NP Growth	Target Price	Rating
	(RM)	(RMm)	FY15/16	FY16/17	FY17/18	(%)	(%)	(x)	FY15/16	FY16/17	FY17/18	(%)	(%)	(RM)	
DEVELOPERS UNDER COVERAGE															
S P SETIA BHD*	1.97	9,342	16.8	14.5	14.4	2.3%	4.1%	0.57	648.5	753.2	755.5	16.1%	0.3%	2.10	MARKET PERFORM
IOI PROPERTIES GROUP BHD*	3.42	9,759	9.8	13.0	11.5	4.9%	13.9%	1.18	918.3	692.0	780.0	-24.6%	12.7%	3.53	OUTPERFORM
UEM SUNRISE BHD*	1.16	5,263	20.5	38.7	34.4	1.4%	3.9%	0.84	257.2	136.6	153.6	-46.9%	12.5%	1.00	UNDERPERFORM
SUNWAY BHD	3.14	6,358	9.1	11.2	11.1	3.1%	11.7%	0.78	594.2	484.6	489.7	-18.4%	1.0%	3.23	MARKET PERFORM
MAH SING GROUP BHD^	1.51	3,638	11.9	11.5	11.5	4.1%	14.3%	1.08	357.2	369.1	369.5	3.3%	0.1%	1.49	MARKET PERFORM
ECO WORLD DEVELOPMENT GROUP BHD	1.48	4,139	31.5	32.1	19.2	0.0%	3.7%	1.04	129.3	136.3	228.4	5.4%	67.5%	1.53	OUTPERFORM
UOA DEVELOPMENT BHD*	2.45	3,997	10.0	10.1	9.4	6.1%	14.1%	1.21	399.0	395.0	427.0	-1.0%	8.1%	2.54	OUTPERFORM
MALAYSIAN RESOURCES CORP BHD	1.49	3,195	-56.4	29.8	61.5	0.6%	-3.3%	1.71	-74.6	140.3	68.4	-288.0%	-51.2%	1.33	MARKET PERFORM
KSL HOLDINGS BHD	1.12	1,153	5.0	5.4	6.1	0.0%	10.5%	0.48	211.5	198.4	190.3	-6.2%	-4.1%	0.99	UNDERPERFORM
MATRIX CONCEPTS HOLDINGS BHD	2.41	1,379	5.8	6.5	5.8	6.1%	31.8%	1.40	255.2	224.2	253.0	-12.1%	12.8%	2.65	OUTPERFORM
CRESCENDO CORPORATION BHD*	1.55	353	19.9	12.7	10.5	3.2%	2.2%	0.41	17.8	28.0	33.5	57.2%	19.6%	1.68	MARKET PERFORM
HUA YANG BHD	1.13	398	3.6	5.7	6.5	1.8%	21.9%	0.66	110.1	70.3	61.7	-36.2%	-12.3%	1.18	MARKET PERFORM
CONSENSUS NUMBERS															
IGB CORPORATION BHD	2.44	3,257	10.7	13.6	12.4	3.3%	7.0%	0.7	304.2	240.3	263.0	-21.0%	9.4%	4.80	NEUTRAL
GLOMAC BHD	0.72	521	3.6	10.0	6.6	5.7%	14.2%	0.5	145.9	52.1	78.8	-64.3%	51.4%	0.74	SELL
PARAMOUNT CORP BHD	1.60	677	9.0	8.9	8.0	5.6%	6.7%	0.8	75.2	76.1	84.6	1.2%	11.1%	2.24	BUY
TAMBUN INDAH LAND BHD	1.39	595	5.5	5.9	6.1	6.8%	22.9%	1.2	108.6	100.6	97.6	-7.4%	-3.0%	1.63	BUY
* Core NP and Core PER															
** Crescendo per share data is based on non-Fully Diluted															
^ Last price and TP is Ex-rights and Ex-Bonus.															
# IOIPG's Price/per share data is based on ex-rights															

Source: Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

- OUTPERFORM : A particular stock's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERPERFORM : A particular stock's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

Sector Recommendations***

- OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10% (an approximation to the 5-year annualised Total Return of FBMKLCI of 10.2%).
- NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of 3% to 10%.
- UNDERWEIGHT : A particular sector's Expected Total Return is LESS than 3% (an approximation to the 12-month Fixed Deposit Rate of 3.15% as a proxy to Risk-Free Rate).

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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